

3. Task: Research and analyze credit history and payment capacity of the potential buyers/partners to assess the commercial risk of the buyer and maintain credit management and control procedures and documentation.

Task 3 Introduction

The Trade Finance domain of the NASITE CGBP is focused on the global business professional who is a generalist who would be involved in the sale of goods and/or services internationally. Therefore, the global business professional needs to be able to research and analyze the credit history and payment capacity of potential buyers/partners in order to assess the commercial risks of the buyer and maintain credit management and control procedures and documentation. This statement can seem overwhelming to those who are new to international finance [business]. We will break it down into pieces and briefly consider how each piece will be addressed in this module.

The first part states “research and analyze the credit history and payment capacity of potential buyers.” This will address this by considering the most frequently used tool to perform such an analysis, the credit report.

The second part states “in order to assess the commercial risks of the buyer.” To consider this part, let’s first consider ourselves as individuals. If you have a credit card or a loan, you as an individual have a credit history. This credit history was created by how well you paid your credit card bills each month or your car loan payment or your mortgage. With the onset of the Internet, you may have seen commercials for yourcreditreport.com or maybe you have seen the commercials that show a couple who want to buy a house and they learn that their credit report is not showing favorable repayment histories and they can’t get their dream home. Now, consider a business who wants credit, in order to obtain buy goods without having to pay in advance. The concept is similar but the process and the data used to assess the business to see if they have a track record of repaying their business obligations is a little different. We are going to talk about that in this module.

The last part states “maintain credit management and control procedures and documentation.” When considering the number of credit transactions a business might need to process, it would be wise to maintain a process for managing credit decisions. These processes should be documented because extending business-to-business credit (i.e., selling on open account) can be quite complex depending on the amount of credit, how long the buyer wants the credit for, whether the buyer and seller are located in the same country and availability of information. Some may argue that this topic alone, credit reports, can be a small course in itself. In this module we are going to focus on:

- A. The purpose of the credit report. In this lesson, we will readdress what a credit report is from a commercial/business perspective. Then we will focus on what this data means to the seller or lender.
- B. The sources of credit reports. When it comes to commercial credit reports, it isn’t quite as simple as logging onto yourcreditreport.com. We are going to review several sources of credit that a seller or lender might use to research a credit history.
- C. Credit information and risk assessment. Once you locate a credit report for a buyer, you need to interpret the information in context with the potential risk of the buyer faulting or not repaying.
- D. Risks associated with methods of payment. A buyer wishing credit may have a great track record when it comes to short term credit lines but when it comes to long term, they don’t fend as well. If the buyer needs long term credit, the possibility of non-payment increases (e.g., over longer period of time the uncertainty regarding buyers ongoing creditworthiness is greater). There are options for the seller and the buyer. Modules 7 and 8 provide more details on short, medium and long-term financing so in this module, we are just going to provide an introduction to some types of payment and not necessarily terms.
- E. Risks mitigation techniques. The methods of payment are actually one way to mitigate the risk that a seller may not be repaid by the buyer. However, there are more and we will introduce you to some commonly used techniques.